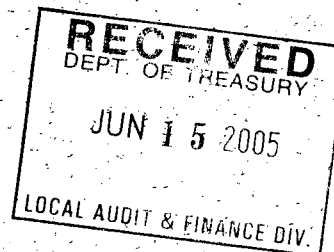


Stephenson, Gracik & Co., P.C.

Certified Public Accountants & Consultants

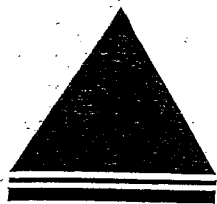
Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
E. Thad Gray, CPA
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Kyle E. Troyer, CPA

Herman A. Bertuleit, CPA



AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
TAWAS CITY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 2004



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
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Kyle E. Troyer, CPA

Herman A. Bertuleit, CPA

December 10, 2004

Independent Auditors' Report

Members of the Board
AuSable Valley Community
Mental Health Services Board
Tawas City, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the AuSable Valley Community Mental Health Services Board, Tawas City, Michigan, as of and for the year ended September 30, 2004, which collectively comprise the Board's basic financial statements, as listed in the index. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the AuSable Valley Community Mental Health Services Board, as of September 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2004, on our consideration of AuSable Valley Community Mental Health Services Board's, Tawas City, Michigan, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the AuSable Valley Community Mental Health Services Board's basic financial statements. The individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Gracik & Co., P.C.

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AuSable Valley Community Mental Health Services

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William Williams, D.O., Chairperson
Floyd R. Smith, Ph.D., Director

AUSABLE VALLEY COMMUNITY MENTAL HEALTH SERVICES BOARD

Management's Discussion and Analysis For Fiscal Year Ended September 30, 2004

As management of the AuSable Valley Community Mental Health Services Board, (the Board), we offer readers of the Board's financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal year ended September 30, 2004.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the Board's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the Board's revenues and expenditures by program for the General Fund and Internal Service Fund.

FINANCIAL HIGHLIGHTS

The Board made several important choices during the year, which have guided our application of the Board's resources during the year. These are as follows:

1. To maximize programs, and take steps to attract quality staff to operate those programs, rather than seeking to maintain a funding overage at the end of year. This choice has been successful. We have maintained programs during the year, and attracted quality staff to operate them. We have utilized the operational dollars available to us, while maintaining a strong fund balance.
2. To accept the transfer of a substantial amount of real property and liquid assets from the AuSable Valley Community Mental Health Foundation, at the time it became necessary for the Foundation to dissolve itself. We have achieved success in that choice, and have seen a substantial increase in our financial position as a result of it. *
3. To vigorously defend against any attempt by the state to take back funds by changing rules after the fact. This defense has been successful to date, although we have not yet seen closure on all such issues. There are positive indicators for continued success, so long as we choose to continue to mount such defense. *
4. To provide a continued careful review of the Board's finances, in order to assure long-term stability of the Board. This is a renewed commitment which must be made every year, but one in which we were successful again in 2004.

Our financial statements provide these insights into the results of this year's operations.

The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by \$2,022,060 (net assets). Of this amount, \$566,399 (unrestricted net assets) may be used to meet the Board's ongoing obligations to clients and creditors.

The Board's total net assets increased by \$1,682,265. This was due to \$1,754,677 worth of assets being transferred to the Board from the AuSable Valley Community Mental Health Foundation when it was dissolved on June 30, 2004. Assets included cash, land contracts receivable, land and buildings. Excluding the Foundation contribution, ongoing revenues and expenses would have resulted in a decrease in net assets of \$72,412. *



AUSABLE VALLEY COMMUNITY MENTAL HEALTH SERVICES BOARD

Management's Discussion and Analysis For Fiscal Year Ended September 30, 2004

As of the close of the current fiscal year, the Board's governmental fund reported an ending fund balance of \$898,716, an increase of \$705,712 in comparison with the prior year. The fund balance represents \$248,788 of Adult Benefit Waiver carryover which will become local funds in the next fiscal year, as well as \$649,928 of unreserved local dollars. The total fund balance was 6.4% of the total expenditures of the general fund.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the AuSable Valley Community Mental Health Services Board basic financial statements. The Board's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Board's finances in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Board's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The *statement of activities* presents information showing how the Board's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected client fees and earned but unused sick and vacation leave).

Both the government-wide financial statements distinguish functions of the Board that are principally supported by intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Board include program activities. The Board does not currently have any business-type activities.

The government-wide financial statements can be found on pages eight and nine of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of these funds of the Board can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of *spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating an entity's near-term financing requirements.

AUSABLE VALLEY COMMUNITY MENTAL HEALTH SERVICES BOARD

Management's Discussion and Analysis For Fiscal Year Ended September 30, 2004

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Board's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the *governmental fund* and *governmental activities*.

The Board maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balance for the general fund which is considered to be a major fund.

The Board adopts an annual appropriated budget for its governmental fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with its budget.

The basic governmental fund financial statements can be found on pages 11 and 13 of this report.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Internal service funds are used to account for the financing of goods or services provided by other funds of the entity. The Board's internal service fund is used to account for the securing of funds necessary to meet expected future risk corridor financing requirements. The internal service fund is reported with governmental activities in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 15 through 17.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18 - 30 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the Board's governmental fund. Required supplementary information can be found on page 31 of this report.

Our auditors have provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Supplemental Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the parts in the Financial Section.

AUSABLE VALLEY COMMUNITY MENTAL HEALTH SERVICES BOARD

Management's Discussion and Analysis For Fiscal Year Ended September 30, 2004

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Board's net assets were \$2,022,060 at September 30, 2004. Of this amount, \$566,399 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and the change in net assets (Table 2) of the Board's governmental activities.

TABLE 1
NET ASSETS

	Governmental Activities	
	September 30, 2004	September 30, 2003
Current Assets		
Noncurrent Assets	\$ 1,793,250	\$ 2,333,485
Total Assets	<u>1,887,787</u>	<u>410,866</u>
	<u>3,681,037</u>	<u>2,744,351</u>
Current Liabilities		
Noncurrent Liabilities	1,189,176	1,981,300
Total Liabilities	<u>469,801</u>	<u>423,256</u>
	<u>1,658,977</u>	<u>2,404,556</u>
<u>Net Assets</u>		
Invested in Capital Assets	1,455,661	410,866
Unrestricted	<u>566,399</u>	<u>(71,071)</u>
Total Net Assets	<u>\$ 2,022,060</u>	<u>\$ 339,795</u>

The \$566,399 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills today, including all of our noncurrent liabilities (compensated absences for example); we would have \$566,399 left.

TABLE 2
CHANGES IN NET ASSETS

	Governmental Activities	
	Year Ended September 30, 2004	Year Ended September 30, 2003
Revenues:		
Program Revenues:		
Charges for Services	\$ 1,056,577	\$ 974,265
Operating Grants and Contributions	1,270,071	1,230,983
General Revenues:		
DCH Formula Funding	2,126,884	2,093,776
Managed Care Medicaid	7,951,249	7,475,089
Adult Benefit Waiver	377,412	0
Foundation Contributions	1,754,677	0
County Appropriations	147,553	147,553
Title XX Replacement	8,200	8,200
Interest Earnings	35,230	10,805
Miscellaneous	0	6,162
Total Revenues	<u>14,727,853</u>	<u>11,946,833</u>

AUSABLE VALLEY COMMUNITY MENTAL HEALTH SERVICES BOARD

Management's Discussion and Analysis For Fiscal Year Ended September 30, 2004

TABLE 2
CHANGES IN NET ASSETS

	Governmental Activities	
	Year Ended September 30, 2004	Year Ended September 30, 2003
Expenses:		
MI – Child Habilitation Services	\$ 206,037	\$ 218,287
MI – Child Outpatient	238,065	185,549
MI – Child State Inpatient	9,724	0
MI – Child Community Inpatient	0	(530)
MI – Child Case Management	668,776	651,667
MI – Adult State Inpatient	11,583	1,376
MI – Adult Community Inpatient	72,546	71,124
MI – Adult Habilitation Services	828,056	833,662
MI – Adult Outpatient	753,274	557,531
MI – Adult Intensive Outpatient	0	136,164
MI – Adult Case Management	830,176	827,290
DD – State Inpatient	78,421	38,742
DD – Children's Waiver	145,600	95,020
DD – Habilitation Services	3,900,801	3,782,807
DD – Community Living	858,765	797,596
DD – Outpatient	321,670	340,524
DD – Case Management	878,588	832,945
DD – Respite Care	25,744	18,540
Other Outpatient Services	264,228	273,131
Emergency Services	96,525	56,205
Supported Employment	617,246	561,149
Prevention	1,434,631	1,342,763
Substance Abuse Program	805,132	808,098
Other Expenses	0	405,558
Total Expenses	<u>13,045,588</u>	<u>12,835,198</u>
Increase (Decrease) in Net Assets	<u>\$ 1,682,265</u>	<u>\$ (888,365)</u>

Governmental activities increased the Board's net assets by \$1,682,265.

As reported in our Statement of Activities on page 10, the cost of all of our governmental activities this year was \$13,045,588. However, the amount that our counties ultimately financed for these activities through the Board was only \$147,553 because some of the cost was paid by those who benefited from the programs \$1,056,577, by other governments and organizations who subsidized certain programs with grants and contributions \$1,270,071, by DCH Formula Funding of \$2,126,884, Managed Care Medicaid of \$7,951,249, Adult Benefit Waiver of \$377,412, Foundation Contributions of \$1,754,677, and by miscellaneous sources \$43,430.

MAJOR GOVERNMENTAL FUND BUDGETING AND OPERATING HIGHLIGHTS

The Board's budget is prepared according to Michigan law. The most significant budgeted fund is the General Fund. During the year ended September 30, 2004, the Board amended the budget of this major governmental fund one time with no significant changes.

AUSABLE VALLEY COMMUNITY MENTAL HEALTH SERVICES BOARD

Management's Discussion and Analysis For Fiscal Year Ended September 30, 2004

General Fund

The general fund actual revenue was \$14,726,543. The amount is more than the original budget estimates of \$13,246,714. The variance between the actual revenue and the original budget was the result of the dissolution and transfer of assets from the AuSable Valley Community Mental Health Foundation.

The actual expenditures of the general fund were \$14,020,831, which is more than the original budget estimates of \$13,246,714. The variance between the actual expenditures and the original budget was due to capital outlay resulting from recording the net book value of property transferred from the AuSable Valley Community Mental Health Foundation.

The General Fund had total revenues of \$14,726,543 and total expenditures of \$14,020,831 with an ending fund balance of \$898,716.

TOTAL REVENUES

The total revenues of the Board were \$14,727,853. Of the total revenues, 100% were generated by governmental activities.

Program specific revenues in the form of charges for services, grants and contributions accounted for \$2,326,648 or 15.8% of total revenues of \$14,727,853.

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$14,020,831. The governmental fund had a net increase in fund balance of \$705,712. The ending fund balance for the governmental fund was \$898,716 which represents 6.4% of current year expenditures. The ending fund balance percentage for the prior year represented 1.6% of last year's expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2004, the Board had \$2,969,488 invested in land, buildings, furniture, fixtures and equipment and vehicles. Of this amount, \$1,513,827 in depreciation has been taken over the years. We currently have net book value of \$1,455,661. Total additions for the year were \$1,229,805.

Long-Term Debt

At September 30, 2004, the Board had \$492,808 of accrued compensated absences. Additional information on this balance can be found in Note 8 on page 28 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

With the State of Michigan faced with a significant deficit, the funding available for Community Mental Health programs is uncertain. We continue to budget and plan at levels consistent with ongoing programs while continually monitoring for any developments at the State and Federal levels. Management will continue to work close with the Board and its Finance Committee to continue to achieve these goals.

AUSABLE VALLEY COMMUNITY MENTAL HEALTH SERVICES BOARD

Management's Discussion and Analysis
For Fiscal Year Ended September 30, 2004

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Board's finances for all those with an interest in government finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Floyd R. Smith, Ph.D.
Executive Director
AuSable Valley Community Mental Health Services Board
1199 W. Harris Avenue
Tawas City, MI 48763
Office Telephone (989) 362-8636

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

EXHIBIT A

STATEMENT OF NET ASSETS
September 30, 2004

Assets

Governmental
Activities

Current assets:

Cash and cash equivalents
Accounts receivable - CMH Services
Accounts receivable - SSI
Accounts receivable - Substance Abuse
Accounts receivable - Miscellaneous
Due from federal
Due from state
Escrows and deposits
Prepaid expenses
Total current assets

\$ 1,274,536
188,588
19,874
42,411
111,508
24,787
31,190
45,025
55,331
1,793,250

Noncurrent assets:

Land contracts receivable
Capital assets - net
Total noncurrent assets

432,126
1,455,661
1,887,787

Total Assets

3,681,037

Liabilities

Current liabilities:

Accounts payable
Due to affiliation
Due to state
Accrued wages
Accrued pension
Compensated absences payable
Escrow payable
Total current liabilities

244,537
61,214
32,814
410,729
377,240
23,007
39,635
1,189,176

Noncurrent liabilities:

Compensated absences payable

Total Liabilities

469,801

Net Assets

Invested in capital assets
Unrestricted

1,658,977

Total Net Assets

1,455,661
566,399
\$ 2,022,060

The accompanying notes to financial statements are an integral part of this statement.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

EXHIBIT B

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2004

	Program Revenues			Net (Expenses) Revenue and Change in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
MI - Child Habilitation Services	\$ 206,037	\$ 0	\$ 0	\$ (206,037)
MI - Child Outpatient	238,065	72,859	0	(165,206)
MI - Child State Inpatient	9,724	0	0	(9,724)
MI - Child Case Management	668,776	2,521	126,777	(539,478)
MI - Adult State Inpatient	11,583	0	0	(11,583)
MI - Adult Community Inpatient	72,546	0	0	(72,546)
MI - Adult Habilitation Services	828,056	39,730	0	(788,326)
MI - Adult Outpatient	753,274	109,524	19,858	(623,892)
MI - Adult Case Management	830,176	1,529	1,535	(827,112)
DD - State Inpatient	78,421	0	0	(78,421)
DD - Children's Waiver	145,600	80,033	0	(65,567)
DD - Habilitation Services	3,900,801	339,497	11	(3,561,293)
DD - Community Living	858,765	84,296	9,430	(765,039)
DD - Outpatient	321,670	4,799	1,360	(315,511)
DD - Case Management	878,588	143	642	(877,803)
DD - Respite Care	25,744	0	0	(25,744)
Other Outpatient Services	264,228	0	0	(264,228)
Emergency Services	96,525	257	0	(96,268)
Supported Employment	617,246	109,819	300	(507,127)
Prevention	1,434,631	0	574,976	(859,655)
Substance Abuse Program	805,132	211,570	535,182	(58,380)
Total governmental activities	\$ 13,045,588	\$ 1,056,577	\$ 1,270,071	(10,718,940)
<u>General Revenue:</u>				
DCH Formula Funding				2,126,884
Managed Care Medicaid				7,951,249
Adult Benefit Waiver				377,412
Foundation Contributions				1,754,677
County Appropriations				147,553
Title XX Replacement				8,200
Interest Earnings				35,230
Total general revenue				12,401,205
Change in net assets				1,682,265
Net assets - beginning of year				339,795
Net assets - end of year				\$ 2,022,060

The accompanying notes to financial statements are an integral part of this statement.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

EXHIBIT C

BALANCE SHEET
GOVERNMENTAL FUND
September 30, 2004

General Fund

ASSETS

Cash and cash equivalents	
Accounts receivable - CMH Services	\$ 1,114,045
Accounts receivable - SSI	188,588
Accounts receivable - Substance Abuse	19,874
Accounts receivable - Miscellaneous	42,411
Due from federal	111,508
Due from state	24,787
Escrows and deposits	31,190
Prepaid expenses	45,025
Land contracts receivable	55,331
	<u>432,126</u>
Total Assets	<u>\$ 2,064,885</u>

LIABILITIES AND FUND EQUITY

Liabilities

Accounts payable	
Due to affiliation	\$ 244,537
Due to state	61,214
Accrued wages	32,814
Accrued pension	410,729
Escrow payable	377,240
Total Liabilities	<u>39,635</u>
	<u>1,166,169</u>

Fund Equity

Fund Balances:

Reserved for Adult Benefit Waiver	248,788
Unreserved-undesignated	649,928
Total Fund Equity	<u>898,716</u>

Total Liabilities and Fund Equity

\$ 2,064,885

The accompanying notes to financial statements are an integral part of this statement.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
September 30, 2004

Total governmental fund balance:

\$ 898,716

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported as assets in governmental funds. Capital
assets at year end consist of:

Capital asset cost

Capital asset accumulated depreciation

\$ 2,969,488
(1,513,827)

1,455,661

An internal service fund is used to secure funds to meet expected future risk
corridor financing requirements. The assets and liabilities of the internal
service fund are included with governmental activities.

160,491

Long-term liabilities are not due and payable in the current period and, therefore,
are not reported as liabilities in the governmental funds. Long-term liabilities at
year end consist of:

Compensated absences payable

(492,808)

Total net assets - governmental activities

\$ 2,022,060

The accompanying notes to financial statements are an integral part of this statement.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended September 30, 2004

	<u>General Fund</u>
Revenue	\$ 14,726,543
Expenditures	<u>14,020,831</u>
Excess of revenue over expenditures	705,712
Fund balance - beginning of year	<u>193,004</u>
Fund balance - end of year	<u>\$ 898,716</u>

The accompanying notes to financial statements are an integral part of this statement.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2004

Total net change in fund balance - governmental fund	\$	705,712
--	----	---------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Current year depreciation expense

\$ (184,774)

Capital outlays reported in the governmental funds

1,229,805

Loss on sale or exchange of assets

(236)

Net difference

1,044,795

Net change in accrued compensated absences:

Accrued compensated absences September 30, 2003

423,256

Accrued compensated absences September 30, 2004

(492,808)

(69,552)

The change in net assets of the internal service fund (a proprietary fund) is reported with governmental activities.

1,310

Change in net assets of governmental activities

\$ 1,682,265

The accompanying notes to financial statements are an integral part of this statement.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

STATEMENT OF NET ASSETS
PROPRIETARY FUND
September 30, 2004

ASSETS

Current assets:

Cash and cash equivalents

\$ 160,491

Total Assets

160,491

LIABILITIES

Current liabilities

0

Total Liabilities

0

NET ASSETS

Unrestricted

160,491

Total Net Assets

\$ 160,491

The accompanying notes to financial statements are an integral part of this statement.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
For the Year Ended September 30, 2004

	Governmental Activities - Internal Service Fund
Operating revenue	\$ 0
Operating expenses	0
Operating income	<u>0</u>
Non-operating revenue: Interest on investments	<u>1,310</u>
Change in net assets	1,310
Total net assets - beginning of year	<u>159,181</u>
Total net assets - end of year	<u>\$ 160,491</u>

The accompanying notes to financial statements are an integral part of this statement.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2004

	Governmental Activities - Internal Service Fund
Cash Flows From Operating Activities	\$ 0
Cash Flows From Noncapital Financing Activities	0
<u>Cash Flows From Investing Activities</u>	
Interest earned on investments	<u>1,310</u>
Net increase in cash and cash equivalents	1,310
Cash and cash equivalents at beginning of year	<u>159,181</u>
Cash and cash equivalents at end of year	<u>\$ 160,491</u>

The accompanying notes to financial statements are an integral part of this statement.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the AuSable Valley Mental Health Services Board conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The Board is considered to be a local government unit. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies.

A. Reporting Entity

The AuSable Valley Community Mental Health Services Board functions as a joint venture between Iosco, Ogemaw and Oscoda counties, and is designated as a Community Mental Health Authority under Section 205 of the Michigan Mental Health Code of 1996. The Board operates under an appointed Board (12 members) whose purpose is to provide quality mental health services to residents of the above constituent counties, which are aimed at preventing and treating emotional problems and substance abuse; and which promote greater independence and improved quality of life for people in these counties with developmental disabilities, mental illness, or substance abuse. The financial statements of the AuSable Valley Community Mental Health Services Board have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Board's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, that apply to all proprietary fund type activities, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. All activities over which the Board exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Related Organization

The AuSable Valley Community Mental Health Foundation was organized in 1990 under Act 162, Public Acts of 1982. The Foundation acted exclusively for charitable, scientific and educational purposes for the benefit of AuSable Valley Community Mental Health Services Board.

Effective October 1, 2003, the Board implemented Governmental Accounting Standards Board (GASB) Statement No. 39, "Determining Whether Certain Organizations are Component Units", an amendment of GASB Statement No. 14. Accordingly, the financial activity of the Foundation, beginning October 1, 2003, is included in these financial statements. On June 30, 2004, the Foundation was dissolved and all of its assets were contributed to the Board at that time.

C. Basis of Presentation

The Board's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the Board as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Board that are governmental and those that are considered business-type activities. The Board does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental fund.

The statement of net assets presents the financial condition of the governmental activities of the Board at year end. The statement of activities presents a comparison between program expenses and program revenues for each function or program of the Board's governmental activities. Program expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Board, with certain limited exceptions. The comparison of program expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Board. Indirect expenses for overhead (i.e. utilities, telephone, rent, etc.) are allocated based on building square footage. The indirect expenses for board administration and program indirect costs are allocated to each program proportionately based on direct program expenses net of contract costs.

Fund Financial Statements:

Fund financial statements report detailed information about the Board. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The Board's general fund and internal service funds are considered major funds.

D. Fund Accounting

The Board uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The general fund of the Board is in the governmental category and the internal service fund is in the proprietary category.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Board's major governmental fund:

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Continued)

General Fund – The General Fund is the general operating fund of the Board. It is used to account for all financial resources.

Proprietary Fund – Internal service funds are used to account for the financing of goods or services provided by other funds of the entity. The Board's internal service fund is used to account for the securing of funds necessary to meet expected future risk corridor financing requirements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Measurement Focus

Government-Wide Financial Statements:

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the Board are included on the statement of net assets.

Fund Financial Statements:

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures and changes in fund balance reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the proprietary fund is accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund is included on the statement of net assets. The statement of changes in revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the Board finances and meets the cash flow needs of its proprietary activities.

F. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The governmental fund also uses the accrual basis of accounting.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Basis of Accounting (Continued)

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Nonexchange transactions, in which the Board receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Board must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Board on a reimbursement basis.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

G. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Board are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the governmental-wide and fund financial statements.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets

General capital assets are those assets that result from expenditures in the governmental fund. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$1,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Board does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities Estimated Lives</u>
Buildings	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles	5 - 15 years

J. Compensated Absences

The Board reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave and vacation benefits are accrued as a liability using the vesting method. An accrual for earned sick leave and vacation are made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the Board's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from the governmental fund are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended September 30, 2004.

N. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

O. Budgets and Budgetary Accounting

The Board normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Director of Finance submits to the Board a proposed budget prior to September 1 of each year. The budget includes proposed expenditures and the means of financing them.

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the State. The law requires appropriation acts to be adopted for General Funds.

2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance.
4. All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the Board.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Governmental Fund Balance Reserves

The Board records reservations for portions of governmental fund balances which are legally segregated for a specific future use or which do not represent available spendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates the portion of fund balance which is available for appropriation in future periods. Reservations of fund balance for the State general fund represent carry forward funding as provided by the Managed Specialty Supports and Services Contract.

NOTE 2 - DEPOSITS AND INVESTMENTS

Balance Sheet

The captions on the statement of net assets related to cash and investments are as follows:

Cash and cash equivalents \$ 1,274,536

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

Deposits:

Deposits are carried at cost. Deposits of the Board are held at various banks in the name of the Board. At September 30, 2004 the book value of the deposits was \$759,574 with a corresponding bank balance of \$817,711. The amount of deposits that were insured by FDIC was \$212,370. In addition, cash includes petty cash of \$200, cash advances of \$14,050 and cash held in trust of \$564.

Investments:

The AuSable Valley Community Mental Health Services Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Board to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Board's deposits and investments are in accordance with statutory authority.

The Board's investments are categorized to give an indication of the level of risk assumed by the Board at September 30, 2004. The categories are described as follows:

Category 1 – Insured or registered, with securities held by the entity or its agent in the entity's name.

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

At September 30, 2004, the Board's investments consisted entirely of Government Money Market funds, which are not required to be categorized, with a carrying amount and market value of \$500,148.

The classification of cash and cash equivalents and investments on the balance sheet/statement of net assets is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$ 1,274,536	\$ 0
Petty cash	(200)	0
Cash advances	(14,050)	0
Cash held in trust	(564)	0
Government Money Market Funds	<u>(500,148)</u>	<u>500,148</u>
GASB Statement No. 3	<u>\$ 759,574</u>	<u>\$ 500,148</u>

NOTE 3 - ACCOUNTS RECEIVABLE – CMH SERVICES

Accounts receivable – CMH Services includes gross receivables from clients, Medicare, Blue Cross and Blue Shield, HMO's and other commercial insurances of \$215,998 less a contractual allowance of \$27,410.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 4 - DUE FROM STATE

Due from State includes the following:

Department of Community Health:
OBRA PASARR

\$ 21,218

Family Independence Agency:
Teen Parenting Program
Wraparound
Strong Families Safe Children

7,144

1,236

1,592

9,972

\$ 31,190

NOTE 5 - LAND CONTRACTS RECEIVABLE

Land contracts that were transferred from the AuSable Valley Community Mental Health Foundation follow:

<u>Contract Date</u>	<u>Location</u>	<u>Original Contract</u>	<u>Monthly Payment</u>	<u>Interest Rate</u>	<u>Balance September 30, 2004</u>
October 1, 1993	West Branch, MI	\$ 55,000	\$ 263	6%	\$ 22,000
January 3, 1994	West Branch, MI	57,500	412	6%	35,478
July 7, 1994	West Branch, MI	68,000	292	6%	34,383
February 19, 1999	East Tawas, MI	71,500	512	6%	58,955
September 29, 2000	Rose City, MI	75,000	432	6%	71,783
January 3, 2001	West Branch, MI	62,000	372	6%	58,911
August 6, 2002	East Tawas, MI	75,000	450	6%	72,970
June 11, 2003	Oscoda, MI	78,900	473	6%	77,646
					\$ 432,126

NOTE 6 - DUE TO STATE

Due to State includes billings for patients of the Board housed in State operated or State sponsored facilities.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2004, was as follows:

	<u>Balance October 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2004</u>
<u>Governmental Activities</u>				
and	\$ 0	\$ 115,412	\$ 0	\$ 115,412
Buildings	17,563	1,290,243	0	1,307,806
Furniture, fixtures and equipment	723,214	61,365	(12,432)	772,147
ehicles	774,123	0	0	774,123
Totals at historical cost	1,514,900	1,467,020	(12,432)	2,969,488

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 7 - CAPITAL ASSETS (CONTINUED)

	Balance October 1, 2003	Additions	Deletions	Balance September 30, 2004
Less: Accumulated Depreciation				
Buildings	\$ (7,445)	\$ (263,203)	\$ 0	\$ (270,648)
Furniture, fixtures and equipment	(553,754)	(67,361)	12,196	(608,919)
Vehicles	(542,835)	(91,425)	0	(634,260)
Total accumulated depreciation	<u>(1,104,034)</u>	<u>(421,989)</u>	<u>12,196</u>	<u>(1,513,827)</u>
Governmental Activities Capital Assets-Net	<u>\$ 410,866</u>	<u>\$ 1,045,031</u>	<u>\$ (236)</u>	<u>\$ 1,455,661</u>

Depreciation expense was charged to programs as follows:

Assets transferred to the Board from the AuSable Valley Community Mental Health Foundation were recorded at net book value. Depreciation on those assets prior to October 1, 2003, was \$237,215. Therefore, total historical cost additions are greater than capital outlay and total accumulated depreciation additions are greater than current depreciation expense by \$237,215. *

Governmental Activities

II - Child Outpatient	\$ 4,527
I - Child Case Management	3,572
I - Adult Habilitation Services	7,889
I - Adult Outpatient	16,720
I - Adult Case Management	22,892
D - Habilitation Services	37,012
D - Community Living	30,051
D - Outpatient	1,341
D - Case Management	14,786
Prevention	20,109
Substance Abuse Program	8,050
Supported Employment	<u>17,825</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 184,774</u>

NOTE 8 - LONG-TERM DEBT

Compensated Absences

Sick Pay

The Board has an employee benefit plan that allows employees to accumulate sick pay hours at the rate of four hours per pay period with 1,040 hours maximum accumulation. Upon retirement or death, the employee or beneficiary is entitled to one-half of unused sick pay at their current rate of pay. Upon termination of employment, for reasons other than retirement or death, employees meeting certain requirements are also eligible for one-half of their unused sick pay, to a maximum of 320 hours. The accumulated sick pay liability at September 30, 2004 was \$139,534, of which \$17,566 was the estimated current portion.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 8 - LONG-TERM DEBT (CONTINUED)

Vacation Pay

The Board has an employee benefit plan that allows employees to accumulate vacation pay, at varying rates, up to a maximum of 240 hours. Upon termination of employment, employees with at least 15 months of service are entitled to all unused vacation pay at their current rate of pay. The accumulated vacation pay liability at September 30, 2004 was \$353,274, of which \$5,441 was the estimated current portion.

The following is a summary of long-term debt transactions of the Board:

	Balance October 1, 2003	Increases	Balance September 30, 2004	Amount Due In One Year
Compensated absences	\$ 423,256	\$ 69,552*	\$ 492,808	\$ 23,007

* Represents net of additions and reductions for the year.

NOTE 9 - LEASE COMMITMENTS

The AuSable Valley Community Mental Health Services Board leases the following facilities: Board Staff Psychiatrist residence from Carole Sullivan for \$450 per month; a trailer from G.E. Capital Modular Space for \$332 per month; the West Branch Detox Center from Bob Griffin for \$850 per month; a consumer leased home from Joan Spurlin for \$688 per month; a consumer leased home from G. Reynolds for \$450 per month; and a consumer leased home from Nancy Griffin for \$700 per month. Total rent expense for the year was \$31,529. All leases have expiration dates of one year or less except for the Nancy Griffin lease which runs through May 2007. Minimum future rental payments under noncancelable leases for the years after September 30, 2004 are as follows:

2005	\$ 8,400
2006	8,400
2007	5,600
	<u>\$ 22,400</u>

NOTE 10 - PENSION PLAN

The AuSable Valley Community Mental Health Services Board has a defined contribution pension plan. All employees who have completed one (1) year of service and have attained the age of 19 are eligible. Vesting in the plan is 0% for years 1-3 and 100% after year 4. The plan is administered by the Sprague Agency.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

The Board is required to contribute 7% of the participant's base wages for the fiscal year. The contributions are funded on an annual basis.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 10 - PENSION PLAN (CONTINUED)

During the year, the Board's required and actual contributions amounted to \$377,240 which was 7% of its current year covered payroll of \$5,768,344 less current year forfeitures of \$26,544.

No pension provision changes occurred during the year that affected the required contributions to be made by the Board.

NOTE 11 - DEFERRED COMPENSATION PLAN

The Board offers to its employees deferred compensation plans created in accordance with Internal Revenue Code (IRC) Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the Board for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Board's financial statements.

NOTE 12 - RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Board participates in the Michigan Municipal Risk Management Authority for self-insuring liability, vehicle physical damage and property and crime coverage. The pool is considered a public entity risk pool. The Board pays annual premiums to the pool for the respective insurance coverage. Under most circumstances, the Board's maximum coverage per occurrence is limited as follows:

<u>Type of Risk</u>	<u>Coverage</u>	<u>Deductible</u>
Liability	Variable \$2,000 - \$15,000,000 each occurrence	\$ 0
Vehicle physical damage	\$1,500,000 each occurrence	\$ 250/vehicle
Property and crime	Variable \$10,000 - \$5,000,000 each occurrence	\$ 250/occurrence

The Board continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 13 - CONTINGENCIES

The Board participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended September 30, 2004, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the Board expects such amounts, if any, to be immaterial.

The Board is a defendant in a lawsuit. The Board continues to vigorously defend its position in the case which legal council characterizes as frivolous. The matter has been referred to the Board's liability insurance company and expects any damages to be covered by applicable insurance.

REQUIRED SUPPLEMENTARY INFORMATION

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended September 30, 2004

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Revenue	\$ 13,246,714	\$ 14,726,543	\$ 14,726,543	\$ 0
Expenditures	<u>13,246,714</u>	<u>14,020,831</u>	<u>14,020,831</u>	<u>0</u>
Excess of revenue over expenditures	0	705,712	705,712	0
Fund balance - beginning of year	<u>193,004</u>	<u>193,004</u>	<u>193,004</u>	<u>0</u>
Fund balance - end of year	<u>\$ 193,004</u>	<u>\$ 898,716</u>	<u>\$ 898,716</u>	<u>\$ 0</u>

OTHER INFORMATION

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

GENERAL FUND
DETAILS OF REVENUE COMPARED TO BUDGET
For the Year Ended September 30, 2004

With Comparative Actual Amounts for the Year Ended September 30, 2003

	2004 Budget	2004 Actual	2003 Actual
<u>Federal Grants</u>			
Department of Community Health:			
Mental Health Block Grant	\$ 55,972	\$ 55,972	\$ 50,000
OBRA/PASARR	15,914	15,914	0
Family Independence Agency:			
Teen Parenting Program	48,414	48,414	60,448
Wraparound Program	66,000	66,000	68,351
Strong Families Safe Children Contract	32,331	32,331	37,700
IMH - Secondary Prevention Grant	77,081	77,081	93,363
Iosco Regional Educational Service Agency:			
Infant and Toddlers	57,454	57,454	54,999
St. Joseph Health Systems:			
Community Based Abstinence Grant	109,592	109,592	0
U.S. Department of Justice:			
Drug-Free Communities Support Program	73,597	73,597	19,107
Northern Michigan Substance Abuse Services, Inc.:			
Substance abuse grants	468,946	468,946	387,737
Bay Arenac Behavioral Health:			
Substance abuse grant	44,149	44,149	13,305
Northeast Michigan Community Service Agency:			
School Success Program	30,000	30,000	50,000
Total Federal Grants	1,079,450	1,079,450	835,010
<u>State Grants</u>			
Department of Community Health - Medicaid	7,951,249	7,951,249	7,475,089
Department of Community Health - General Fund	2,126,884	2,126,884	2,093,776
Department of Community Health - Adult Benefit Waiver	377,412	377,412	0
Other State Grants	184,497	184,497	388,557
<u>Grants from Local Units</u>			
Iosco County	69,070	69,070	69,070
Ogemaw County	54,683	54,683	54,683
Oscoda County	23,800	23,800	23,800
Title XX Replacement	8,200	8,200	8,200
<u>Named Contracts</u>			
Department of Community Health	32,252	32,252	30,451
Other Contracts	327,825	327,825	362,016
<u>Charges and Fees for Services</u>			
Client and other	463,277	463,277	290,546
SSI AFC Home	233,223	233,223	291,252
<u>Non-Match Revenue</u>			
Foundation Contributions	1,754,677	1,754,677	0
Other non-match revenue	6,124	6,124	13,578
Interest Earned	33,920	33,920	5,534
Total Mental Health Programs	\$ 14,726,543	\$ 14,726,543	\$ 11,941,562

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

EXHIBIT M

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended September 30, 2004
With Comparative Actual Amounts for the Year Ended September 30, 2003

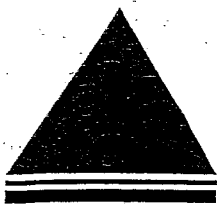
	2004 Budget		2004 Actual		2003 Actual
AI - Child Habilitation Services	\$ 205,994	\$	205,994	\$	217,558
AI - Child Outpatient	269,415		269,415		186,856
AI - Child State Inpatient	9,724		9,724		0
AI - Child Community Inpatient	0		0		(530)
AI - Child Case Management	751,808		751,808		646,463
AI - Adult State Inpatient	11,583		11,583		1,376
AI - Adult Community Inpatient	72,546		72,546		71,124
AI - Adult Habilitation Services	822,736		822,736		859,490
AI - Adult Outpatient	807,487		807,487		548,123
AI - Adult Intensive Outpatient	0		0		136,000
AI - Adult Case Management	863,479		863,479		835,754
ID - State Inpatient	78,421		78,421		38,742
D - Children's Waiver	145,578		145,578		95,020
D - Habilitation Services	4,421,015		4,421,015		3,798,607
D - Community Living	939,279		939,279		799,819
D - Outpatient	344,375		344,375		330,749
D - Case Management	938,511		938,511		827,109
D - Respite Care	25,744		25,744		18,540
ther Outpatient Services	278,496		278,496		273,131
mergency Services	94,187		94,187		56,205
upported Employment	618,781		618,781		557,236
vention	1,484,467		1,484,467		1,326,479
ubstance Abuse Program	837,205		837,205		793,399
	<u>\$ 14,020,831</u>	\$	<u>14,020,831</u>	\$	<u>12,417,250</u>

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

EXHIBIT N

GENERAL FUND
DETAILS OF EXPENDITURES
For the Year Ended September 30, 2004
With Comparative Totals for the Year Ended September 30, 2003

	<u>2004</u>	<u>2003</u>
Salaries and wages	\$ 6,998,337	\$ 6,811,336
Fringe benefits	2,876,703	2,470,398
Board expense	57,943	75,280
Office supplies	51,927	44,640
Postage	17,573	22,596
Furniture and equipment	92,951	5,424
Capital outlay	1,229,805	39,040
Program supplies	249,128	298,306
Contracted services - miscellaneous	223,149	190,133
Contracted services - audit	15,545	15,100
Contracted services - doctor	86,191	61,569
Contracted services - Northern Family Intervention Services	120,000	127,500
Contracted services - A.F.C. - homes	205,939	231,307
Contracted services - C.F.C. - home	157,399	195,833
Contracted services - community inpatient	72,741	70,594
Contracted services - attorney	100,437	86,684
Contracted services - consultation	94,193	84,228
Contracted services - habilitation services	122,957	68,975
Contracted services - Northern Affiliation	61,214	54,648
Contracted services - children's respite	12,450	9,937
Contracted services - software support	19,401	12,398
Contracted services - Voyager internet	6,470	6,285
Institutional billings - local	15,638	5,445
Institutional billings - state	84,089	34,672
Memberships and dues	8,595	8,935
Telephone	112,289	106,317
Transportation - client	118,149	118,977
Transportation - staff	223,141	242,701
Staff development	46,216	50,296
Advertising	8,966	6,298
Insurance and bonds	121,851	139,944
Medicaid draw-down	145,547	150,070
Utilities	79,556	90,514
Repairs and maintenance - building	128,747	124,184
Repairs and maintenance - equipment	24,065	58,151
Rent - building	31,529	298,535
Total Expenditures	<u>\$ 14,020,831</u>	<u>\$ 12,417,250</u>



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

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Gerald D. Gracik Jr., CPA
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Kyle E. Troyer, CPA

Herman A. Bertuleit, CPA

December 10, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Board
AuSable Valley Community
Mental Health Services Board
Tawas City, Michigan

We have audited the financial statements of the governmental activities and each major fund of the AuSable Valley Community Mental Health Services Board, Tawas City, Michigan, as of and for the year ended September 30, 2004, which collectively comprise the Board's basic financial statements and have issued our report thereon dated December 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the AuSable Valley Community Mental Health Services Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the AuSable Valley Community Mental Health Services Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted one matter involving the internal control over financial reporting that we have reported to management of AuSable Valley Community Mental Health Services Board, in a separate letter dated December 10, 2004.

This report is intended solely for the information and use of the Members of the Board, management, Michigan Department of Treasury, federal awarding agencies and pass-through entities and is not intended to be and should not be relied on by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.